

WD-40 Company
Annual Report
1984

Year Ending August 31



Highlights of the 3 Years Ended August 31

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Net Sales	\$57,306,000	\$50,188,000	\$48,103,000
Net Income	\$10,062,000	\$ 7,974,000	\$ 8,965,000
+ Net Income per Share	\$1.35	\$1.07	\$1.21
+ Dividends per Share	\$.84	\$.75	\$.68
+ Average No. of Shares Outstanding	7,476,546	7,453,598	7,434,834
+ Shares Outstanding	7,494,921	7,459,141	7,438,770
Number of Shareholders	2,172	1,998	1,399
Number of Employees	39	38	37

Highlights Fiscal 1984:

- Current Ratio: 6.9 to 1
- Receivables to Sales: 17.0%
- Net Income to Average Net Worth: 41.8%
- Inventories to Sales: 3.4%
- Debt: None
- Sales per Employee: \$1,469,384

+ Amounts have been restated to reflect the three for one stock split effective April 12, 1983.

October 15, 1984

TO OUR SHAREHOLDERS:

It is a pleasure to report that your Company has posted record sales and earnings. Sales rose to \$57,306,000, an increase of 14.1% over last year and earnings reached \$10,062,000, up 26.1% from fiscal 1983. On a per share basis, earnings were \$1.35 as compared with \$1.07 last year. Cash dividends were \$.84 per share this year as compared with \$.75 per share last year.

Net profit after taxes as a percent of sales rose to 17.5% from last year's 15.9% as a result of costs and expenses being reduced as a percent of sales. Other income held steady as a percent of sales.

Slow but steady progress is being made to improve distribution in grocery supermarkets to assist us in tapping the female market. Our market research has established that the woman is both a good buyer and user of WD-40.

Canada continues to show splendid growth although the growth rate is slackening off as expected.

Construction has commenced on a new facility in England which will be headquarters for our operations in the U.K., Europe, and Africa when our license for that area expires in September 1985. Start-up operations are already underway.

Our objective for fiscal 1985 is to hold profit margins while achieving a healthy sales growth.



John S. Barry,
President

THE COMPANY

Corporate Objectives

Management is dedicated to the objectives of increasing corporate earnings and dividends by winning the end-user's brand loyalty for your Company's only product, WD-40.

The Product

WD-40 is the cornerstone of your Company. It is a chemical-petroleum based maintenance product consumed by end-users in homes, factories, garages, farms and offices throughout the world. The well-established growth pattern in the demand for WD-40 attests to customer satisfaction with its performance.

WD-40 is typically procured for a specific application and, because of its unusual versatility, finds its way into many other uses. This broad range of uses provides your single-product Company with surprising diversification from a marketing point-of-view — it has little dependency on any one or even a group of end-users.

Markets

WD-40 is distributed to its diverse end-users through a number of trade channels and retail outlets including automotive, industrial, farm, drug, grocery and mass merchandisers.

We envision substantial growth attainable by both winning new end-users and by increasing consumption rate through product application education.

Competition

WD-40's hard-earned brand leadership has created envy and lured numerous imitators into the marketplace. Eager, ambitious Product Managers of billion-dollar conglomerates seem especially attracted to use the healthy resources of their employers to "slice off a good piece of the cake." Over a dozen billion-dollar companies have found the market to be a bit of a Bermuda Triangle. The fate of the Product Managers of these ill-fated ventures is unknown.

In the important retail segment of our market, we are competing for shelf space with the giant marketing companies in the world with products ranging from anti-freeze to light bulbs and razor blades. To survive and grow, our promotional programs must be attractive enough to the

trade to win the retail display space we need to capitalize on the impulse nature of WD-40.

Operational Overview

While your Company is technically a manufacturer it is really a marketer. Such being the case, it is organized to focus intensive management attention on critical success areas of: (1) sales policies, (2) marketing plan formation, and (3) implementation of marketing plans. Other vital functions handled internally are: order handling, credit, WD-40 concentrate formulation, and quality control.

WD-40 concentrate is formulated in San Diego and shipped by rail car or tank wagon to contract packagers in Los Angeles, Texas, Georgia, Massachusetts, Wisconsin, and Toronto, Canada. These independent sub-contractors package WD-40 to rigid specifications and, upon order from your Company, ship WD-40 to customers in their respective areas via common carrier. The packagers have no responsibility for marketing WD-40.

Your Company has thirty-one employees in the United States, seven in Canada, and one in England.

International

Your Canadian subsidiary, WD-40 Products (Canada) Ltd., is basically a marketing organization selling WD-40 packaged by a sub-contractor.

Sales in the balance of the free world are handled by a network of distributors or licensees.

While international business contributes less than 10% to sales and earnings it does enhance WD-40's overall image as well as build demand in the United States through "cross pollination."

Construction of a facility has commenced in England. This facility will serve the English, European, and African markets when our present license for these areas expires in September of 1985.

Capital Requirements — Dividends

It is anticipated that the investment mentioned in the previous section can be handled with internal financing without changing our dividend policy.

We paid \$.84 per share in fiscal 1984 compared with \$.75 the previous year, a 12% increase.



To the Board of Directors and Shareholders
of WD-40 Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of WD-40 Company and its subsidiaries at August 31, 1984 and 1983, and the results of their operations and the changes in their financial position for each of the three years in the period ended August 31, 1984, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

San Diego, California
October 8, 1984

Price Waterhouse

**WD-40 COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS**

	Year ended August 31		
	1984	1983	1982
Net sales	\$57,306,000	\$50,188,000	\$48,103,000
Interest, royalty and other income	1,515,000	1,333,000	1,712,000
	<u>58,821,000</u>	<u>51,521,000</u>	<u>49,815,000</u>
Cost and expenses:			
Cost of product sold	24,060,000	21,781,000	20,467,000
Selling, general and administrative	9,395,000	8,626,000	8,170,000
Advertising and sales promotion	4,923,000	5,021,000	3,083,000
	<u>38,378,000</u>	<u>35,428,000</u>	<u>31,720,000</u>
Income before taxes on income	<u>20,443,000</u>	<u>16,093,000</u>	<u>18,095,000</u>
Provision for income taxes (Note 2):			
Federal	8,201,000	6,436,000	7,321,000
State	1,717,000	1,310,000	1,505,000
Foreign	463,000	373,000	304,000
	<u>10,381,000</u>	<u>8,119,000</u>	<u>9,130,000</u>
Net income	<u>10,062,000</u>	<u>7,974,000</u>	<u>8,965,000</u>
Beginning retained earnings	20,719,000	18,333,000	14,448,000
Cash dividends of \$.84, \$.75 and \$.68 per share	(6,283,000)	(5,588,000)	(5,080,000)
Ending retained earnings	<u>\$24,498,000</u>	<u>\$20,719,000</u>	<u>\$18,333,000</u>
Earnings per share (Note 1)	<u>\$1.35</u>	<u>\$1.07</u>	<u>\$1.21</u>

See accompanying notes to consolidated financial statements.

WD-40 COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	ASSETS		August 31
	<u>1984</u>	<u>1983</u>	
Current assets:			
Cash including certificates of deposit of \$15,653,000 and \$9,706,000	\$16,968,000	\$11,647,000	
Accounts receivable, less allowance for cash discounts and doubtful accounts of \$163,000 and \$194,000	9,759,000	8,286,000	
Inventories, at the lower of average cost or market:			
Finished goods	1,798,000	1,800,000	
Raw materials	169,000	361,000	
	<u>1,967,000</u>	<u>2,161,000</u>	
Prepaid taxes and expenses	703,000	1,899,000	
Total current assets	<u>29,397,000</u>	<u>23,993,000</u>	
Property, plant and equipment at cost (Note 1):			
Land	250,000	100,000	
Building and improvements	504,000	476,000	
Machinery and equipment	761,000	759,000	
	<u>1,515,000</u>	<u>1,335,000</u>	
Less: accumulated depreciation	(622,000)	(630,000)	
	<u>893,000</u>	<u>705,000</u>	
Total	<u>\$30,290,000</u>	<u>\$24,698,000</u>	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 1,086,000	\$ 1,493,000	
Accrued payroll and related expenses	649,000	941,000	
Estimated taxes on income (Note 2)	2,529,000	66,000	
Total current liabilities	<u>4,264,000</u>	<u>2,500,000</u>	
Deferred income taxes (Note 2)	37,000	45,000	
Shareholders' equity:			
Common stock no par value,			
9,000,000 shares authorized — shares issued and outstanding of 7,494,921 and 7,459,141 (Note 3)	1,651,000	1,313,000	
Paid in capital	121,000	121,000	
Retained earnings	24,498,000	20,719,000	
Cumulative foreign currency translation adjustment (Note 1)	(281,000)		
Total shareholders' equity	<u>25,989,000</u>	<u>22,153,000</u>	
Commitments (Note 1)			
	<u><u>\$30,290,000</u></u>	<u><u>\$24,698,000</u></u>	

See accompanying notes to consolidated financial statements.

WD-40 COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended August 31		
	<u>1984</u>	<u>1983</u>	<u>1982</u>
Financial resources were provided by:			
Operations —			
Net income	\$10,062,000	\$ 7,974,000	\$ 8,965,000
Depreciation	90,000	90,000	104,000
Deferred income taxes, non-current portion	(8,000)	———	———
Provided by operations	10,144,000	8,064,000	9,069,000
Issuance of common stock (Note 3)	382,000	239,000	44,000
Disposition of equipment	6,000	4,000	19,000
	<u>10,532,000</u>	<u>8,307,000</u>	<u>9,132,000</u>
Financial resources were used for:			
Cash dividends	6,283,000	5,588,000	5,080,000
Repurchase of common stock	44,000	71,000	———
Additions to property, plant and equipment	284,000	69,000	81,000
Equity adjustment for foreign currency translation	281,000	———	———
	<u>6,892,000</u>	<u>5,728,000</u>	<u>5,161,000</u>
Increase in working capital	<u><u>\$ 3,640,000</u></u>	<u><u>\$ 2,579,000</u></u>	<u><u>\$ 3,971,000</u></u>
Changes in components of working capital:			
Increase (decrease) in current assets —			
Cash	\$ 5,321,000	\$ 1,636,000	\$ (417,000)
Accounts receivable	1,473,000	(1,356,000)	2,561,000
Inventories	(194,000)	301,000	435,000
Prepaid taxes and expenses	(1,196,000)	1,226,000	95,000
	<u>5,404,000</u>	<u>1,807,000</u>	<u>2,674,000</u>
Decrease (increase) in current liabilities —			
Accounts payable	407,000	(128,000)	(61,000)
Accrued payroll and related expenses	292,000	(148,000)	(143,000)
Estimated taxes on income	(2,463,000)	1,048,000	1,501,000
	<u>(1,764,000)</u>	<u>772,000</u>	<u>1,297,000</u>
Increase in working capital	<u><u>\$ 3,640,000</u></u>	<u><u>\$ 2,579,000</u></u>	<u><u>\$ 3,971,000</u></u>

NOTES CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — Summary of accounting policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, WD-40 Products (Canada) Limited and WD-40 Company Ltd (U.K.). All significant intercompany transactions have been eliminated. Accounts of the Canadian and United Kingdom subsidiaries have been translated into United States dollars at appropriate rates of exchange.

Foreign currency translation losses of \$281,000 have been included in equity for the year ended August 31, 1984.

The Company's wholly owned subsidiary in the United Kingdom, WD-40 Company Ltd. was incorporated in September 1983. Start-up costs for the year ended August 31, 1984, which were not material in amount, have been included in operations. The Company has committed to the purchase of a building and plant facility to be constructed during the year ending August 31, 1985 for an estimated \$798,000.

Depreciation

Depreciation of plant and equipment has been computed using straight-line and accelerated methods, based upon estimated useful lives of thirty years for the plant and three to fifteen years for machinery and equipment.

Earnings Per Share

Earnings per share are based upon the weighted average number of shares outstanding during each year, giving retroactive effect to the three for one stock split in April 1983, as described in Note 3.

NOTE 2 — Income Taxes:

Income tax provisions are computed at the statutory rates in effect for federal, state and foreign authorities, respectively. The provisions for income taxes include the following timing differences of which \$8,000 in 1984 relate to non current accounts:

	Year ended August 31		
	1984	1983	1982
Due to expenses recorded in advance of tax deduction —			
California Franchise Tax	\$173,000	(\$ 73,000)	\$ 49,000
Allowance for cash discounts	(17,000)	54,000	7,000
Stock appreciation rights	(188,000)	98,000	52,000
Other — net	5,000	2,000	1,000
Tax effect of timing differences	<u>\$ (27,000)</u>	<u>\$ 81,000</u>	<u>\$109,000</u>

Investment tax credits, which are not material in amount, are accounted for under the flow-through method.

NOTE 3 — Common Stock:

In March 1983, the Board of Directors authorized an increase in the number of authorized common shares from 3,000,000 to 9,000,000 and split the shares issued and outstanding three for one to shareholders of record on April 12, 1983. Shares of common stock, earnings and dividends per share, stock options and prices at which options are exercisable have been computed giving retroactive effect to the stock split.

During 1981 the Company issued Stock Appreciation Rights (SAR) covering 49,200 shares of the Company's common stock at \$9.83 per share. This plan replaced a terminated stock option plan which had options outstanding for 49,200 shares at \$9.83 per share.

The SAR plan resulted in a charge to income of \$98,000 in 1982, \$320,000 in 1983 and no charge to income in 1984.

During the year ended August 31, 1982, stock options for 4,500 shares and the related SAR were exercised. The SAR value when exercised approximated \$14,000 and was applied against the option price of approximately \$44,000, generating \$30,000 of net cash proceeds to the Company. Stock options for 44,700 shares remained outstanding at August 31, 1982. During the year ended August 31, 1983, stock options for 16,200 shares and the related SAR were exercised. The SAR value when exercised approximated \$137,000 and was applied against the option price of approximately \$159,000, generating \$22,000 of net cash proceeds to the Company. Stock options for 28,500 shares remained outstanding at August 31, 1983. During the year ended August 31, 1984, all of the outstanding stock options for 28,500 shares and the related SAR were exercised. The SAR value when exercised approximated \$344,000 and was applied against the option price of approximately \$280,000, resulting in a net cash outflow of \$64,000 to the Company.

In November 1981, the shareholders approved an Incentive Stock Option Plan whereby the Board of Directors may grant officers and key employees options to purchase an aggregate of not more than 240,000 shares of the Company's no par value common stock at a price not less than 100 percent of the fair market value of the stock at the date of grant. Options are exercisable one year after grant and may not be granted for terms in excess of ten years. Options for 34,275 shares were granted in March 1982, at \$10.83 per share and became exercisable in March 1983. During the year ended August 31, 1983, stock options for 7,371 shares were exercised. Stock options for 26,904 shares remained outstanding and options for 205,725 shares remained available for grant under the plan at August 31, 1983. Options for 29,000 shares were granted in November 1983 at \$19.50 per share and will become exercisable in November 1984. During the year ended August 31, 1984, stock options for 9,414 shares were exercised and options for 450 shares were cancelled. The Company repurchased 2,134 and 3,200 shares of its common stock during 1984 and 1983, respectively, in conjunction with the above transactions. Stock options for 46,040 shares remained outstanding and options for 176,725 shares remained available for grant under the plan at August 31, 1984.

NOTE 4 — Profit Sharing Plan:

The Company has a Profit Sharing Plan for the benefit of its regular full-time employees, including officers. The Plan provides for annual contributions into a trust which are based upon an annual earnings formula, or more, as approved by the Board of Directors, but which may not exceed the amount deductible for income tax purposes. The Plan may be amended or discontinued at any time by the Company. Profit sharing expense for 1984, 1983 and 1982 approximated \$179,000, \$188,000 and \$161,000, respectively.

Quarterly Financial Information

The following table sets forth certain quarterly financial information for the two years ended August 31, 1984.

Quarter ended:	Net Sales	Gross Profit	Net Income	Earnings Per Share
November 30, 1982	\$11,092,000	\$ 6,302,000	\$ 1,628,000	\$.22
February 28, 1983	12,960,000	7,279,000	2,115,000	.28
May 31, 1983	14,791,000	8,320,000	1,985,000	.27
August 31, 1983	11,345,000	6,506,000	2,246,000	.30
	<u>\$50,188,000</u>	<u>\$28,407,000</u>	<u>\$ 7,974,000</u>	<u>\$1.07</u>
November 30, 1983	\$13,516,000	\$ 7,737,000	\$ 2,023,000	\$.27
February 29, 1984	15,239,000	8,620,000	2,500,000	.34
May 31, 1984	14,979,000	8,823,000	2,574,000	.34
August 31, 1984	13,572,000	8,066,000	2,965,000	.40
	<u>\$57,306,000</u>	<u>\$33,246,000</u>	<u>\$10,062,000</u>	<u>\$1.35</u>

The quarterly financial information has been restated to reflect the three for one stock split effective April 12, 1983.

COPY OF FORM 10-K

Beneficial owners may obtain without charge a copy of WD-40 Company's annual report on Form 10-K filed with the Securities and Exchange Commission for 1984 by writing to the Secretary, WD-40 Company, 1061 Cudahy Place, San Diego, California 92110.

STOCK INFORMATION

Period	Fiscal 1984			Fiscal 1983		
	High	Low	Dividend	High	Low	Dividends
First Quarter	\$23	\$16 1/4	\$.20	\$20 1/2	\$13 3/4	\$.18
Second Quarter	23	18 1/4	.20	22 1/4	17 3/4	.18
Third Quarter	24	18 3/4	.22	32 1/4	20 1/2	.19
Fourth Quarter	24 1/4	19 1/2	.22	28 1/2	21	.20

The high and low sales prices are as quoted in Standard and Poor's Daily Stock Prices, adjusted to give retroactive effect to the three for one stock split which was effective April 12, 1983.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE LAST THREE FISCAL YEARS OF OPERATIONS (SEE SUMMARY OF OPERATIONS ON PAGES 9 AND 10)**Liquidity**

The Company does not anticipate any liquidity problems.

Capital Generation

The Company generates all the capital it needs.

Sales

Sales growth rates for fiscal 1982 through 1984 respectively were: 7.8%, 4.3%, and 14.1%.

Cost of Products Sold

Products cost as a percent of sales has been reasonably stable for the past three fiscal years: 42.6%, 43.4%, and 41.9%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percent of sales for fiscal 1982 through 1984 has been fairly stable: 17.0%, 17.2%, and 16.4%.

Advertising and Sales Promotion Expenses

Advertising and sales promotion expenses for fiscal 1982 were 6.4% as a percent of sales then jumped to 10.0% in 1983. In 1984 the figure came down to 8.6%, a more reasonable number.

Board of Directors

John S. Barry	President, Treasurer
Sam Crivello	Investor
Eugene H. DeFalco	Investor
Daniel W. Derbes	Executive Vice President, The Signal Companies, Inc.
Harlan F. Harmsen	Secretary; Attorney, Harmsen, Carpenter & Wilkinson
Jack L. Heckel	Chairman of the Board and CEO, Aerojet General Corp.
Margaret L. Roulette	Investor
C. Fredrick Sehnert	President, Technology Ventures Associates

Officers

John S. Barry	President, Treasurer
Gerald C. Schleif	Vice President — Marketing
Harlan F. Harmsen	Secretary
E. Gianni	Assistant Secretary

General Counsel

Harmsen, Carpenter & Wilkinson

Independent Accountants

Price Waterhouse
San Diego, California

Transfer Agent & Registrar

California First Bank, 8155 Mercury Court, San Diego, California 92112

Corporate Office

1061 Cudahy Place
San Diego, California 92110
619/275-1400

Annual Meeting

2:00 PM, November 26, 1984
Sunrise Room
Town & Country Hotel
500 Hotel Circle North
San Diego, California 92109

Subsidiaries

WD-40 Products (Canada) Ltd.
WD-40 Company Ltd. (U.K.)

Listed

Over the Counter. NASDAQ National Market System.
Symbol WDFC

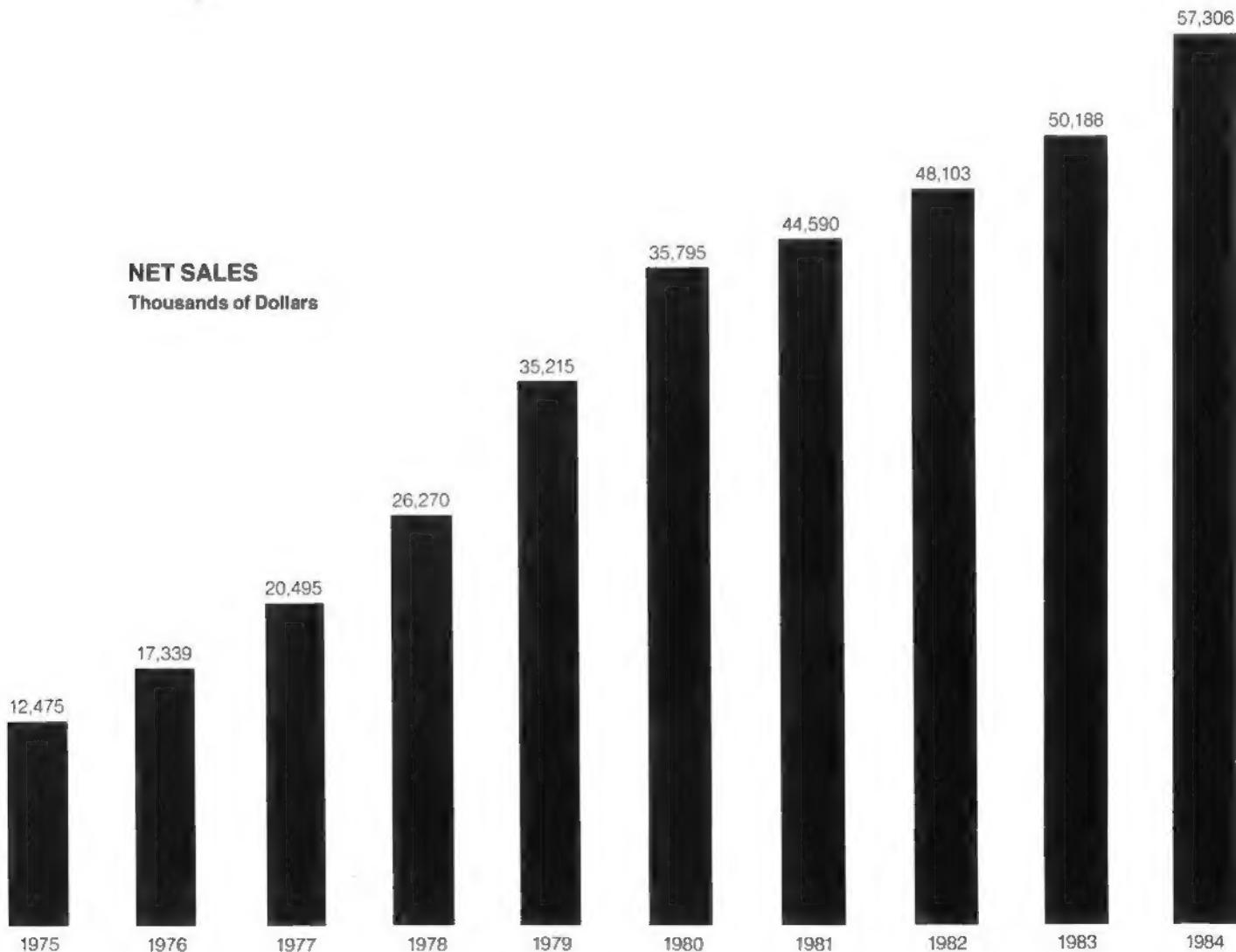
TEN YEAR SUMMARY (1)

FISCAL YEAR ENDED AUGUST 31

	1975	1976	1977
Net sales	\$12,475,000	\$17,339,000	\$20,495,000
Cost of products sold	5,863,000	7,929,000	9,230,000
Gross profit	6,612,000	9,410,000	11,265,000
Selling, advertising, general and administrative expenses	3,483,000	4,918,000	5,812,000
Interest, royalty and other income	210,000	229,000	296,000
Income before taxes on income	3,339,000	4,721,000	5,749,000
Provision for income taxes	1,738,000	2,468,000	3,013,000
Net income	\$ 1,601,000	\$ 2,253,000	\$ 2,736,000
Earnings per share (2)	\$.22	\$.31	\$.38
Weighted average number of shares	7,303,470	7,303,470	7,303,698
Cash dividends per share (3)	\$.13	\$.16	\$.18
Total assets	\$ 4,165,000	\$ 5,942,000	\$ 7,556,000
Number of employees	24	27	31

(1) Includes the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated. See Management's Discussion and Analysis of Operations of the three years ended August 31, 1984 on page 7.

(2) Earnings per common share have been computed based upon the weighted average number of shares of common stock outstanding during each year after giving retroactive effect to the two for one stock split in October 1978 and the three for one stock split in April 1983.

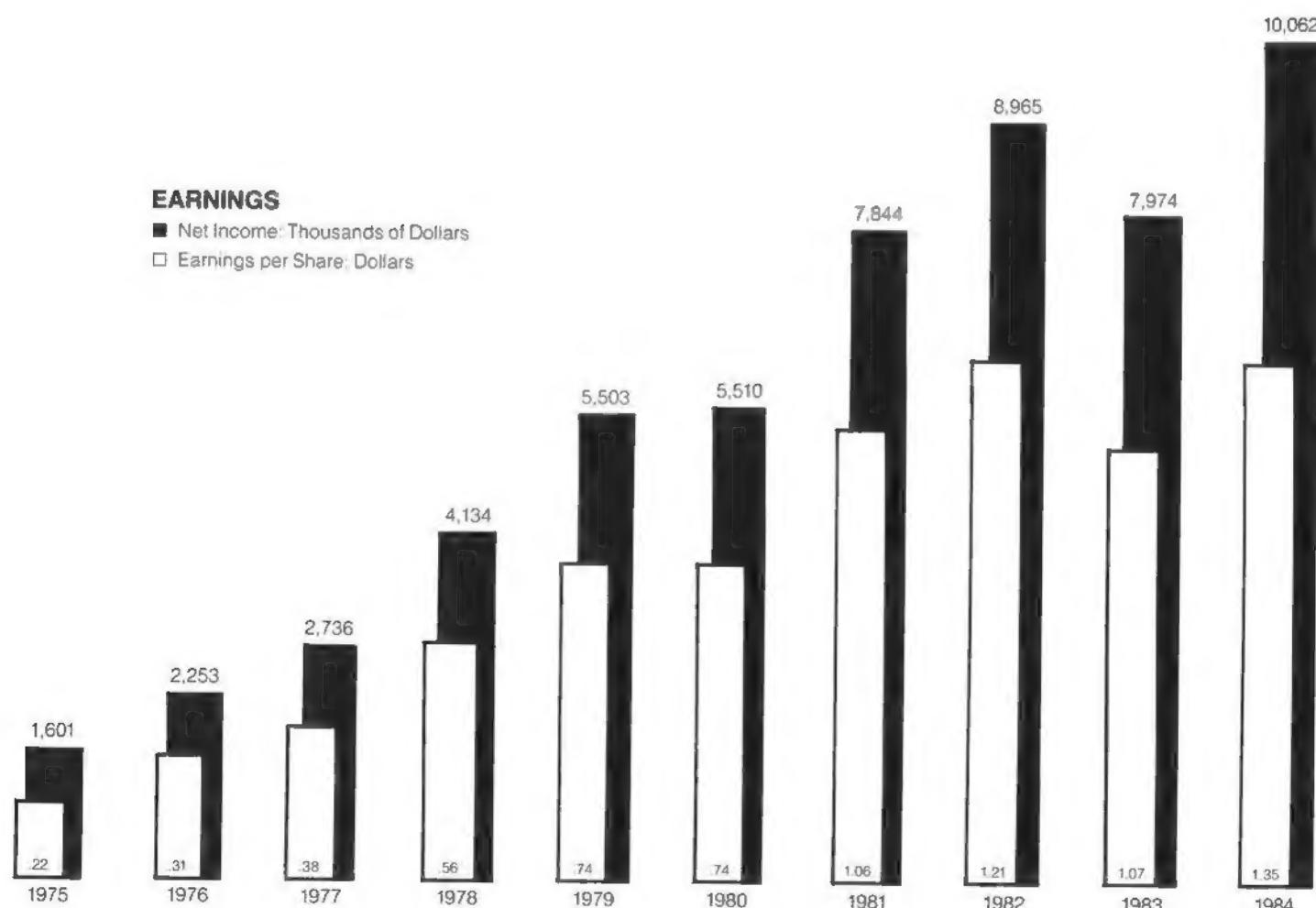


1978	1979	1980	1981	1982	1983	1984
\$26,270,000	\$35,215,000	\$35,795,000	\$44,590,000	\$48,103,000	\$50,188,000	\$57,306,000
10,957,000	15,503,000	16,106,000	19,715,000	20,467,000	21,781,000	24,060,000
15,313,000	19,712,000	19,689,000	24,875,000	27,636,000	28,407,000	33,246,000
7,200,000	9,154,000	9,519,000	10,203,000	11,253,000	13,647,000	14,318,000
491,000	706,000	942,000	1,212,000	1,712,000	1,333,000	1,515,000
8,604,000	11,264,000	11,112,000	15,884,000	18,095,000	16,093,000	20,443,000
4,470,000	5,761,000	5,602,000	8,040,000	9,130,000	8,119,000	10,381,000
\$ 4,134,000	\$ 5,503,000	\$ 5,510,000	\$ 7,844,000	\$ 8,965,000	\$ 7,974,000	\$10,062,000
\$.56	\$.74	\$.74	\$1.06	\$1.21	\$1.07	\$1.35
7,414,278	7,434,270	7,434,270	7,434,270	7,434,834	7,453,598	7,476,546
\$.27	\$.40	\$.52	\$.60	\$.68	\$.75	\$.84
\$10,446,000	\$13,352,000	\$13,296,000	\$20,284,000	\$22,916,000	\$24,698,000	\$30,290,000
32	35	36	36	37	38	39

(3) The cash dividends paid per common share have been retroactively restated to give effect to the October 1978 and April 1983 stock splits.

EARNINGS

■ Net Income: Thousands of Dollars
 □ Earnings per Share: Dollars



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1984

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